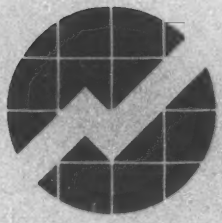
H 2635-1 -B
Rec'd 7/14/80

KEDI ECONOMIC SURVEY

JANUARY ISSUE

January 31, 1980



KENT ECONOMIC AND DEVELOPMENT INSTITUTE

KENT STATE UNIVERSITY FOUNDATION, INC.
KSU Campus, Student Center
Kent, Ohio 44242/U.S.A.

KEDI ECONOMIC SURVEY

JANUARY ISSUE

January 31, 1980

President: Vladimir J. Simunek

This monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, KSU Foundation, Inc., Kent State University Campus - Student Center, Kent, Ohio 44242, U.S.A. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor: Diane L. Lewis

Publication No. 018000444
KEDI January 31, 1980

CONTENTS

1.0 OVERVIEW AND ASSUMPTIONS — Page

1.01 OVERVIEW — 1

The forecast has been revised. There will not be a recession. There will be slow growth at an annual pace of approximately one percent.

1.02 ASSUMPTIONS — 4

New assumptions concern Mid-East crisis, grain and technology embargo and changes in attitude of businesses.

DETAILED FORECASTS

1.1 REAL GROWTH — 6

There was no decline in the fourth quarter of 1979. Slow growth is predicted for 1980 and beyond.

1.2 PRICES AND NOMINAL GNP — 8

The forecast for the increases in prices has been revised upward. KEDI expects a rise of prices in the 13 percent range as opposed to the government's lower numbers.

1.3 EMPLOYMENT AND LABOR — 11

The unemployment projections have been revised slightly downward, yielding for 1980 a 6.1 percent rate.

1.4 HOUSING — 15

The projection remains virtually unchanged.

1.5 FEDERAL AND STATE AND LOCAL BUDGETS — 16

The projection here is that the Federal deficit will be about $4 billion greater than the government currently anticipates.

1.6 INCOME — 18

The forecast has been changed and the estimates for personal income raised by $11 billion for 1980. Wage increases will average 11 percent.

Page

1.7 MONEY AND CREDIT 21

The tight money policy will continue through the first half of 1980 and changes after that will be very small. Mortgage funds will be in short supply in the first half of the year.

1.8 INTEREST RATES, YIELDS & SECURITY PRICES 23

The basic trend forecast for interest rates remain the same with slight gains in the second half of 1980 but overall a slow decline.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS 26

For the year 1979, most forecasters underestimated the developments in housing industry.

TABLES

Table No.		Page
1.0	KEDI FORECAST HIGHLIGHTS	3
01.	REAL GROWTH	9
02.	PRICES AND NOMINAL GNP	12
03.	EMPLOYMENT AND LABOR	14
04.	HOUSING	17
05.	FEDERAL, STATE AND LOCAL BUDGETS	19
06.	INCOME	22
07.	MONEY AND CREDIT	24
08.	INTEREST RATES, YIELDS AND SECURITIES PRICES	25
2.0	COMPARISONS OF ACCURACY OF PREDICTIONS	26

1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

This Institute has revised its forecast in this issue. Whereas a very mild recession or possibly none was the likely conclusion in December last year, now it can be more definitely stated that 1980 will not bring us such economic conditions; there will not be a recession. There will be slow growth at an annual pace of approximately 1.0 percent.

Miscalculations need to be admitted. KEDI was off the mark on estimates for the fourth quarter. However, to give credit where it is due, the forecast here was closer to what did develop than other economists. Most of them expected quite a downturn, but here only a slight reversal was painted in the fourth quarter horizon. What did happen? People spent more and saved less. Considering inflation, such a statement shouldn't be surprising. Who can save these days -- or save as much as they would like?

Personal savings were accumulating above the $70 - 80 billion annual rate throughout most of 1979. In the last quarter of the last year of the seventies, this rate dropped to only $50 billion. It has been over a decade since personal savings were at such a rate back in the late sixties. This fourth quarter shift to more spending was not anticipated.

Secondly, the forecast by KEDI is revised due to the events of January concerning Iran and Afghanistan. In last month's issue, military orders for the early 1980's were put at $10 billion annually. That amount is revised here to $15 billion, and during each of the next few years, another $5 billion will likely be added.

The change in spending behavior by both the military and the ordinary struggling citizen adds up to two more points added to the price index predicted in the December issue. It means there will be slow growth rather than any mild recession.

This view is in sharp contrast to that of the Administration. The Council of Economic Advisors predicts a mild and brief recession. The Wall Street Journal reports that Mr. Carter expects unemployment to average about 7.0 percent during 1980. This Institute predicts the rate to be a much lower 6.1. Arthur Okum, Chief White House economist during the Johnson years, predicts that the recession will start this quarter. KEDI does not agree.

The Congressional Budget Office expects a mild recession this year. KEDI does not agree.

President Carter's Administration estimates the consumer price index will rise by 11.8 percent. KEDI does not agree.

It would be ever so lovely (as the English often say) to be able to say that this Institute's figure is lower. Realism forces otherwise. Inflation will be in the 13 percent range. Other economists agree with this latter figure. Indications are that more of them are shedding their cloaks of gloom at last and beginning to think in terms of some growth rather than recession. The reader is referred to Forecast Highlights on the following page, Table 1.0.

Long-term Outlook

Despite the pleasant surprise of the lack of a downturn in the fourth quarter, and the unpleasant developments in Iran and Afganistan, the

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1978	1979	1980	1985
Gross National Product	bil. const. 72$	1399.2	1431.2	1444.4	1741.5
Index of Industrial Production	1967 =100	145.2	152.1	153.5	172.8
Capacity Utilization	%	84.3	86.2	86.8	86.3
Unemployment Rate	%	6.0	5.9	6.3	6.1
Private Housing Starts	mil. units	2.020	1.721	1.577	1.914
Car Sales	mil. units	11.3	10.7	10.2	12.8
Implicit GNP Price Deflator	1972 =100	152.1	165.5	182.2	284.3
Consumer Price Index	1967 =100	195.3	217.4	246.2	396.4
Producer Price Index	1967 =100	209.3	236.1	269.2	408.7
Federal Deficit	bil.$	-27.7	-10.3	-22.0	-20.1
Personal Income	bil.$	1717.4	1923.0	2130.2	3298.6
Prime Rate	%	9.06	12.76	13.82	10.11
Mortgage Rate	%	9.30	10.52	11.48	9.81
Currency plus Demand Deposits	bil.$	352.8	376.1	416.0	667.3
Commercial and Industrial Loans	bil.$	230.9	264.6	283.1	467.5

long-term outlook outlined in the December issue, remains the same: the 1980's will give us some growth but not at the rate that existed during the seventies. On the average, KEDI expects the economy in this country will grow at a 1.8 - 1.9 percent rate during the decade. (In the 1970's, the average was about 2.0 percent.) There will be two distinct cycles with peak growth in 1984 and 1989. There will be a steel shortage in the middle of the decade and energy supply problems throughout it. Inflation will bob up and down with periods of price rises in excess of 10 percent and years such as 1982 and 1988 where the rate will likely be in the "lower" 8 or 9 percent range.

1.02 ASSUMPTIONS

The following assumptions are parts of this forecast. Compared with assumptions incorporated into the December, 1979, forecasts, the changes concern the Assumptions No. 2, 6 and 7.

1. In 1980, approximately 95% of the demand for oil in this country will be met. In 1981 all basic U.S. demands for oil should be met. The weighted price of oil in 1979 will average $26 per barrel and in 1980 this figure will go up to the $34 range. In 1981, it is expected the price will go up on $40 and in 1982, on $46 per barrel.

2. It is still to current to develop a longer-lasting assumption for the impact of the Iranian-Mid East crisis. Compared with the previous forecast, slightly higher price increases of energy items and substantially higher defense orders have been considered.

3. The Administration will continue its policy of maintaining high interest rates and tight money. In the second or third quarter of 1980

it will adopt fiscal measures aimed against further increases in unemployment. The monetary policy will ease during this same time.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation by gradually reducing the excess demand. The Federal Reserve Board will, at long last, begin a policy of setting the limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. For 1982 and consecutive years, we assume that the Administration will pursue a more vigorous anti-inflation policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1980, 1981, and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. Low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring the record crops. Compared with the previous forecast, the exports of grain have been reduced.

7. It is projected here that the rates of growth in 1979, 1980-1982 in the major industrial countries will be as follows for real GNP:

	1979	1980	1981	1982
West Germany	3.0%	3.1%	3.4%	3.5%
Italy	2.9	3.0	3.0	3.1
Japan	2.9	2.3	2.1	2.3
Great Britain	1.4	1.8	1.9	2.0
France	2.7	2.6	2.6	2.7

8. No abrupt changes in political situations in the world will occur.

9. The attitude of businesses and consumers will keep increasing throughout 1980. In the previous forecast, a lower level of confidence of businesses and consumers had been expected. A significant change is assumed to occur in 1981, due mainly to the Administration's policy aimed to stimulate the increases in productivity in the economy.

1.1 REAL GROWTH
(Table 01. on page 9)

KEDI and all other major forecasters were in error in the estimates of the fourth quarter of 1979. As was discussed in the first section, the predicted decline did not occur. Looking on the bright side, the decline foreseen here in issues of the last months of 1979, was only a small one, as compared to most forecasters. Part of the outlook that had been seen by this Institute was based on an assumption of low auto sales. However, they were not as low in December as had been expected here. Overall, KEDI had been saying that if there was to be a recession, it would be mild. Now, there is no recession to predict. Slow growth is in the near future and recent data highlights this.

The economy performed extremely well in the fourth quarter of 1979. Preliminary data show that there was a 2 - 3 percent rate of annual growth, seasonally adjusted. Retail sales in January, 1980, were strong. Early data shows that shoppers and their money were soon parted in the bargain filled stores making both the value-conscious consumer and the store owners happy.

Orders for durable goods went up a bit in December by 0.6 percent on a

seasonally adjusted basis. The backlog of orders rose by 1.3 percent. Along with this, new factory orders gained by 1.3 percent also with gains in orders for aircraft, fabricated-metal products and machinery and declines for steel producers, auto, railroad, and equipment manufacturers. Ms. Slater, the Commerce Department's chief economist acknowledged the improvement, but still was predicting a mild recession. Such views remind KEDI staffers of the saying, "There are none so blind as those that will not see."

Industrial production managed to move up a bit in December by 0.3 percent, seasonally adjusted. Although it was the smallest gain since 1974, it was a gain. Data recently released also show small increases in November for both new orders by manufacturers and unfilled orders.

The index of leading economic indicators did not change in December. It remained at the same level it had reached in November: 136.8 percent of the 1967 average. So, it did not provide a basis for at least two months of decline which is often seen as a sure sign of a recession.

The value of construction contracts rose in December providing a bright bit of news. Such contracts went up by 6 percent. The five month decline that preceeded December was brought to an end.

The Commerce Department reported that businesses plan to spend about 1 - 2 percent more on new plant and equipment this year than in 1979, after adjustment for inflation. Larger than average increases are expected in the aircraft, electrical machinery, paper, and petroleum industries.

The only relatively negative note comes from recent data on auto sales. But even this decline was smaller than expected. In early January sales were down by 5.3 percent from the year-earlier comparable period. The December developments as mentioned so far, indicate that the economy has performed well and do not indicate a start of a downturn or a recession.

1.2 PRICES AND NOMINAL GNP
(Table 02. on page 12)

Prices in this forecast have been revised upward as compared with prior KEDI predictions due to the following factors: first, the higher than expected gains in the December, 1979, Consumer Price Index, the Producer's Index, and the Implicit GNP Price Deflator, and secondly, because of the changes in Assumptions Number 2, 6 and 7. That is, they reflect the impact of the rise in defense orders and attitude of businesses.

As to prices, in December, producer prices for finished goods increased by 0.8 percent, seasonally adjusted. For the year, 1979, these prices rose an unadjusted 12.5 percent which was the sharpest gain since 1974.

Producer food prices in December moved down just a bit by an adjusted 0.1 percent from the November level. However, the December level was up 20.6 percent from the year-earlier figure. Energy prices were up by 2.4 percent in December from the prior month. Gasoline prices gained an adjusted 3.4 percent. Over the whole year, as the reader well knows while groaning at the gas pumps, gasoline prices leaped by 61 percent. Home-heating oil prices jumped by just over 70 percent during 1979.

Producers prices for intermediate goods were up an adjusted 1.2 percent in December from the November level. During the year these prices gained

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

TABLE 01. REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3 *	4	
Gross National Product, 1972$	bil.$	1399.2	1430.6	1422.3	1433.3	1438.4	1431.2
Index of Indust. Production	1967=100	145.2	152.2	151.9	152.2	152.1	152.1
Unemployment Rate	%	6.0	5.8	5.7	5.8	5.9	5.9
Capacity Utilization Rate	%	84.3	86.7	85.9	85.3	86.7	86.2
Private Housing Starts	mil. units	2.020	1.616	1.837	1.825	1.604	1.721
Car Sales	mil. units	11.3	11.6	10.5	10.8	9.7	10.7

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Gross National Product, 1972$	bil.$	1431.2	1436.4	1438.7	1446.7	1454.3	1444.4
Index of Indust. Production	1967=100	152.1	151.6	152.6	154.1	155.8	153.5
Unemployment Rate	%	5.9	6.3	6.3	6.2	6.4	6.3
Capacity Utilization Rate	%	86.2	86.4	86.1	86.8	87.8	86.8
Private Housing Starts	mil. units	1.728	1.412	1.575	1.658	1.661	1.577
Car sales	mil. units	10.7	9.5	9.8	10.5	10.9	10.2

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972$	bil.$	1444.4	1460.1	1476.8	1489.8	1501.6	1482.8
Index of Indust. Production	1967=100	153.5	156.1	156.9	158.3	159.9	157.8
Unemployment Rate	%	6.3	6.5	6.2	6.2	6.1	6.2
Capacity Utilization Rate	%	86.8	88.2	88.4	88.0	88.9	88.4
Private Housing Starts	mil. units	1.577	1.581	1.744	1.835	1.858	1.755
Car sales	mil. units	10.2	10.5	11.3	11.5	11.6	11.2

*Historical data

by 15.9 percent. Crude prices moved up by 17.5 percent in 1979.

The ban on sales of grain to the Soviet Union will not have much effect on meat prices, according to livestock economists. The meat supply just isn't that responsive as quantities are pretty well fixed, and female animals already are pregnant with calves and pigs. Currently there is not an excess of beef cattle to place on feed lots and fatten with grain. As it takes years to increase beef output and the number of cattle is on the upswing of the cattle cycle now, it won't be until the mid-1980's that the consumer will get a "bargain," and some cattle ranchers suffer real losses. Then the upward cycle will resume.

Grain prices will not drop, in part, due to Carter's steps to lessen the impact on farmers of the Soviet embargo by such measures as raising federal storage subsidies. The Soviets were preparing to buy grain from Argentina and it is likely they will pay premium prices. Reports of hot and dry weather there add to the push to generally higher prices. Real and rumored buying by the Soviets have contributed to rising prices of rubber and lead also. No drop in prices for agricultural products is foreseen.

All prices will increase in 1980. Sugar production, for example, is down world wide and prices will be going up despite the International Sugar Organizations increasing by 10 percent the amount of sugar that producer members can export. World prices nearly doubled during 1979.

KEDI expects further substantial increases in the prices of products for defense goods, products for aircrafts and parts, machine tools, mining machinery, and nonferrous metals such as copper, zinc and lead.

In Janaury, for example, copper rose to nearly the record price set in 1974. The price leaps for gold and silver are well known. Speculators are looking to metals such as copper. Prices then become not only a product of supply and demand but also a reflection of international currency problems.

In December, consumer prices went up by a seasonally adjusted rate of 1.2 percent. The overall rise for the year was 13.3 percent -- the steepest rise since 1946. As was mentioned in the first section of this issue, the KEDI forecast is for a similar rise during 1980 as opposed to the governments lower estimate of 10 percent.

All of these aforementioned items contribute to the prediction that prices will rise by 13 percent in 1980. An important factor here is the relationship between crude, intermediate, and finished product prices. As was mentioned in the first paragraphs of this section, it can be seen that crude prices went up at a faster rate than intermediate prices, and they went up at a faster pace than finished product prices. This presents the basis for larger price gains in 1980 in particular.

1.3 LABOR
(Table 03. on page 14)

The employment situation has been and will be not too gloomy. The current forecast by this Institute for unemployment is revised slightly downward. Compared to other forecasters, this is an optimistic view. For example, the unemployment rate here has been reduced by an average of .10 percent for 1980, .15 for 1981 and .18 for 1982. This provides the following new projection data for the rate of unemployment: 1980, 6.1%; 1981, 6.2%;

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

TABLE 02. PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Consumer Price Index, NSA	1967=100	195.3	207.0	214.1	221.1	227.4	217.4
Producer Price Index, NSA	1967=100	209.3	227.2	231.7	238.8	246.7	236.1
Implicit GNP Price Deflator	1972=100	152.1	160.2	163.8	167.2	170.7	165.5
Gross National Product	bil.$	2107.6	2292.1	2329.8	2396.5	2455.8	2368.6
Personal Cons. Expenditures	bil.$	1340.1	1454.2	1475.9	1528.6	1580.4	1509.8
Gross Private Dom. Investment	bil.$	345.6	373.8	395.4	392.3	383.3	386.2

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Consumer Price Index, NSA	1967=100	217.4	236.8	243.8	249.0	255.2	246.2
Producer Price Index, NSA	1967=100	236.1	256.1	265.4	273.1	282.0	269.2
Implicit GNP Price Deflator	1972=100	165.5	175.0	179.9	184.8	189.2	182.2
Gross National Product	bil.$	2368.6	2513.7	2588.2	2673.5	2751.5	2631.7
Personal Cons. Expenditures	bil.$	1509.8	1592.4	1635.6	1688.1	1740.5	1664.2
Gross Private Dom. Investment	bil.$	386.2	385.1	402.4	419.6	432.7	410.0

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	246.2	260.3	267.5	275.3	284.6	271.9
Producer Price Index, NSA	1967=100	269.2	286.8	292.4	298.5	304.1	295.5
Implicit GNP Price Deflator	1972=100	182.2	189.8	193.9	198.8	204.6	197.0
Gross National Product	bil.$	2631.7	2771.3	2863.5	2976.6	3072.3	2920.9
Personal Cons. Expenditures	bil.$	1664.2	1775.4	1807.3	1882.6	1947.1	1853.4
Gross Private Dom. Investment	bil.$	410.0	444.2	457.6	480.7	501.3	470.1

*Historical data

1982, 6%. This revision reflects the changes made in Assumptions No. 2, 6 and 9.

In contrast to others, these figures are relatively low. For instance, the Administration has been projecting unemployment at an average of 7.5 percent for 1980 and average about 7.3 percent in 1981.

The Congressional Budget Office is even more pessimistic. They estimate unemployment at 7.8 percent for 1980 and say it may go above 8 percent by the end of 1981.

Actual data for December, 1979, give virtually no indication that would show any serious slowdown coming. First of all, December unemployment was at a seasonally adjusted rate of 5.9 percent - up just .1 percent from the November level. A Labor Department official stated that there was no clear evidence of a downturn. Such a view is wholeheartedly agreed with here.

In December, total employment moved up a bit by 0.3 percent to an adjusted 97.9 million. The number unemployed rose 0.7 percent to an adjusted 6.1 million. The average workweek for nonfarm workers remained the same in December as it was in November: 35.7 hours. However, for factory workers, there was an increase in the last month of 1979 to 40.3 hours from November's 40.1 average workweek. That, again, does not indicate any serious downturn in sight.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

TABLE 03. EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Population Civilian	mil.	218.5	219.6	220.1	220.7	221.3	220.4
Labor Force	mil.	100.4	102.4	102.9	103.9	103.9	103.3
Employed	mil.	94.4	96.5	97.0	97.2	97.8	97.2
-Agriculture	mil.	3.3	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	91.0	93.2	93.7	93.8	94.5	93.9
Unemployment Rate	%	6.0	5.77	5.73	5.81	5.88	5.80

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Population Civilian	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Labor Force	mil.	103.3	104.2	104.8	105.6	106.4	105.3
Employed	mil.	97.2	97.6	98.2	99.0	99.6	98.7
-Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
-Non Agriculture	mil.	93.9	94.3	94.8	95.6	96.3	95.3
Unemployment Rate	%	5.80	6.31	6.28	6.21	6.39	6.30

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population Civilian	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Labor Force	mil.	105.3	107.1	108.0	108.7	109.4	108.3
Employed	mil.	98.7	100.2	101.3	102.0	102.7	101.6
-Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	95.3	96.9	98.0	98.6	99.4	98.3
Unemployment Rate	%	6.30	6.48	6.21	6.17	6.10	6.24

*Historical data

4.0 HOUSING
(Table 04. on page 17)

As compared with the other forecasters, the KEDI projection of housing starts for this year (published in January, 1979) has been optimistic. KEDI projected that housing starts for 1980 would amount to be 1.771 million units. Except for insignificant changes, that forecast remained throughout the year, 1979. Actual number of housing units starts in 1979 is 1721.

In October, 1979, the forecasters overreacted to Federal Reserve monetary actions. Some forecasters had been estimating housing starts at roughly 1.1 - 1.3 million units in 1980. The KEDI 1980 projection remained unchanged at that time.

Now, forecasters are again raising their projections. There are two basic reasons for their change: First, a surprise in the continued strength of housing starts was shown in December, 1979 data. Second, the indications are that are adjusting to the higher rates -- builders and buyers alike. Many realize that there isn't a big recession likely to cave their roof in nor is it likely that bargain interest rates reappear. The Secretary of the Department of Housing and Urban Development was quoted in The Wall Street Journal as saying he didn't think crisis was the appropriate word to describe housing currently. Last month he had asked Congress to take a new look at a mortgage subsidy plan for emergency use.

In regard to house prices, there are indications of some decline in November and December. Data for November indicate a $700 drop in the

price average of an existing home. Any drop is seen as a temporary phenomenon by KEDI. However, taking the long view, shows that the median price of such a house went up by 185% between 1968 and October, 1979. The forecast by this Institute is unchanged in that house prices are seen continuously climbing but at a slower rate in 1980. In 1981 and the following years the faster pace will resume.

5.0 FEDERAL AND STATE AND LOCAL BUDGETS
(Table 05. on page 19)

The Federal Budget, recently presented by President Carter is built on these assumptions: mild recession in the first half of the year, raising unemployment, and double digit inflation. KEDI's projection is based on these assumptions: no recession in 1980 at all, unemployment at approximately the same level throughout the year, and double digit inflation of 13.4% as opposed to the Administration's 11.8% rate.

This Institute's projection shows a larger deficit than the Administration's proposal: 20 billion as compared to the Administration's 16 billion. The basis for KEDI's more pessimistic view is in the expectations concerning defense expenditures, social security and welfare payments, and tax receipts.

First, it is anticipated here that actual defense spending in fiscal 1980/81 will be $154 billion compared with the Administration's $145. There is a lot of lag, too much, in bureaucratic response to changes in the economic and political atmosphere. The budget was drawn up, for the most part, before the Iran and Afghanistan events. These events contribute to Congressional desire for more defense spending in an

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

TABLE 04. HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3*	4	
Single-Family Housing Starts	mil. units	1.433	1.119	1.262	1.236	1.059	1.169
Multifamily Housing Starts	mil. units	.567	.496	.575	.589	.545	.551
Mobile Homes Shipments	thous units	276	284	276	269	285	279
Housing Permits Issued	mil. units	1.680	1.405	1.503	1.306	1.083	1.324
Construction Costs-Commerc.	1972= 100	164.3	172.7	177.6	185.7	196.1	183.0
Construction Costs-Resident.	1972= 100	161.8	171.8	175.5	182.3	192.5	180.5
Indicator	Unit	1979	1980				1980
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.169	.920	1.052	1.106	1.074	1.038
Multifamily Housing Starts	mil. units	.551	.492	.523	.552	.587	.539
Mobile Homes Shipments	thous units	279	263	278	298	281	280
Housing Permits Issued	mil. units	1.324	.982	.997	1.026	1.089	1.024
Construction Costs-Commerc.	1972= 100	183.1	198.7	203.9	213.4	219.0	208.8
Construction Costs-Resident.	1972= 100	180.5	195.0	202.1	209.9	214.0	205.3
Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.038	.995	1.148	1.211	1.205	1.139
Multifamily Housing Starts	mil. units	.539	.590	.596	.624	.653	.616
Mobile Homes Shipments	thous units	280	263	296	315	324	300
Housing Permits Issued	mil. units	1.024	1.124	1.198	1.258	1.298	1.220
Construction Costs-Commerc.	1972= 100	208.8	223.0	227.1	231.8	242.8	231.2
Construction Costs-Resident.	1972= 100	205.3	217.9	221.1	224.2	227.9	222.8

*Historical data

economy that is showing more strength than Carter experts anticipated. Hence, officials are finally beginning to consider that inflation will be above the Carter Budget estimate presented in late January.

Secondly, it is projected here that Social Security and Welfare payments will be approximately $11 billion higher than what the Administration proposes. This is due to the higher rate of inflation expected by KEDI as compared to the Administration.

Thirdly, this Institute expects that Federal Income Tax Receipts and Corporate Income Tax receipts will be higher by $4 billion and $12 billion, respectively, than the figures projected by the Administration. This is due mainly to employment holding up better than expected and to inflation increased incomes pushing some people into higher tax brackets.

Considering also the other minor differences between the Administration's budget proposal and the projection here, the result is that since the December issue, KEDI has increased its projection of the government deficit by $4 billion to $20 billion.

The forecast for State and Local Governments has been revised upward. The new forecast data show roughly a $1.0 billion increase in the surpluses of State and Local Budgets.

1.6 INCOME
(Table 06. on page 22)

The forecast data for income and components have been raised since the last issue. For the years 1980-85 the forecast of Personal Income has been increased due to changes in Assumptions 2, 6, and 9.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

TABLE 05. FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Federal Govt.:							
Income Taxes	bil.$	189.4	207.4	220.6	229.6	242.3	225.0
Corporate Profit Tax Accruals	bil.$	72.0	77.2	74.9	79.4	82.4	78.5
Surpl./Deficit	bil.$	-27.7	-11.7	-7.0	-11.3	-11.1	-10.3
State and Local Governments:							
Income Taxes	bil.$	37.5	40.8	42.9	38.9	41.3	41.0
Corporate Profit Tax Accruals	bil.$	12.5	14.1	13.7	14.7	14.9	14.4
Surpl./Deficit	bil.$	27.4	27.6	19.7	25.3	21.7	23.6

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	223.4	249.6	254.7	261.3	265.8	257.9
Corporate Profit Tax Accruals	bil.$	78.2	82.3	87.8	92.1	93.6	88.9
Surpl./Deficit	bil.$	-11.0	-17.8	-19.6	-24.6	-25.8	-22.0
State and Local Governments:							
Income Taxes	bil.$	42.0	42.1	43.5	46.8	49.7	45.5
Corporate Profit Tax Accruals	bil.$	14.3	14.9	15.8	18.0	19.1	17.0
Surpl./Deficit	bil.$	23.6	19.9	20.6	21.0	21.3	20.7

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	246.9	272.6	279.8	283.1	290.5	281.5
Corporate Profit Tax Accruals	bil.$	84.8	98.9	106.8	114.7	123.9	111.1
Surpl./Deficit	bil.$	-20.1	-24.6	-26.8	-26.3	-25.2	-25.7
State and Local Governments:							
Income Taxes	bil.$	43.9	51.2	56.9	59.8	61.3	57.3
Corporate Profit Tax Accruals	bil.$	15.9	21.3	23.8	25.6	26.4	24.3
Surpl./Deficit	bil.$	19.0	22.4	24.7	26.9	29.7	25.7

*Historical data

The number of employed persons have been increased somewhat, and the same is true for the average hourly compensation rates. President Carter's pay advisory committee anticipates that wage gains will be in the recommended range of 7.5 to 9.5 percent and hope that most will be clustered around the middle at about 8.5 percent. KEDI considers that this is not realistic. Even the chairman of that committee acknowledged that some settlements will be above that range. It is not felt here that they will average out to anywhere near 8.5.

The outlook for wages in 1980 and 1981 is not bright when inflation is considered. This Institute expects that the wage gains will average 11 percent in 1980 and 11.5 in 1981. When considering the projected Consumer Price increases of 13.4 and 13.2 percent, respectively, the gap between the price and wage gains will, at best, remain unchanged when compared with the last two years. That gap leaves most citizens constantly struggling to make their income stretch to cover their expenses.

Wages have been declining for the last two years when they are put against the Consumer Price Index. Oil price increases are being absorbed by workers. Also, the lower real income does reflect belt-tightening in other ways. For instance, it reflects workers paying for more medical, Social Security, and welfare payments for those that have been ill, not employed, and unable to be employed.

Since the last issue of this publication, the projection of the profit component of income has also been raised. Corporate profits will keep gaining throughout the year. The KEDI forecast differs from the Administrations projection.

Pretax Profits (Billion of $)

	1979	1980	1981	1982
KEDI	238	256	274	291
Administration	238	228	242	277

As was explained in earlier sections, no recession is anticipated in 1980. Consequently, the profits of businesses will not decline.

1.7 MONEY AND CREDIT

(Table 07. on page 24)

In this forecast, monetary and credit aggregates have been increased when compared with the last forecast, due to changes in Assumptions No. 2, 6 and 9.

Concerning Assumption No. 2 about the interest rates, it is expected that the Federal Reserve tight money policy will remain unchanged throughout the first half year and will loosen somewhat in the second half of 1980. No significant changes in monetary and credit policy of the Federal Reserve system are expected in 1980.

The forecast data show a slowdown in bank commercial loans, and consumer credit in the first half of this year, and the resumption of a faster growth in the second half. The early January data indicate, that funds for banks' commercial loans are adequate and that there will be no shortages in their availability. The forecast data also indicate that funds for consumer loans will not be in short supply.

Some difficulties are expected on the mortgage market. The availability of mortgage credit in the first half of the year, will be reduced. The inflow of mortgage money into banks and savings institutions will not resume before the middle of 1980.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

TABLE 06. INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Personal Income	bil.$	1717.4	1852.5	1892.5	1946.6	2000.5	1923.0
Personal Dispos. Income	bil.$	1458.4	1572.2	1601.7	1639.4	1678.8	1623.0
Compensation of Employees	bil.$	1304.5	1411.2	1440.6	1472.8	1512.8	1459.4
Corp. Profits After Tax	bil.$	121.5	142.0	139.3	148.3	150.7	145.1
Personal Saving	bil.$	72.0	79.2	85.9	70.3	55.9	72.8
Average Weekly Earnings	$	203.3	212.4	217.8	220.6	221.5	218.1

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Personal Income	bil.$	1923.0	2040.9	2091.8	2156.4	2231.8	2130.2
Personal Dispos. Income	bil.$	1623.0	1692.5	1770.8	1856.4	1874.3	1791.0
Compensation of Employees	bil.$	1459.4	1524.6	1584.8	1570.5	1740.3	1625.0
Corp. Profits After Tax	bil.$	145.1	152.4	154.8	166.9	174.8	162.2
Personal Saving	bil.$	72.8	60.8	68.4	72.5	78.3	70.0
Average Weekly Earnings	$	218.1	223.7	228.3	235.5	246.1	231.9

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil.$	2130.2	2003.7	2339.2	2405.3	2483.7	2375.5
Personal Dispos. Income	bil.$	1791.0	1876.3	1917.2	1997.3	2029.6	1972.6
Compensation of Employees	bil.$	1625.0	1780.3	1817.1	1922.4	1960.3	1880.1
Corp. Profits After Tax	bil.$	162.2	178.0	184.9	190.6	192.7	186.6
Personal Saving	bil.$	70.0	82.4	87.3	91.5	95.4	89.2
Average Weekly Earnings	$	231.9	243.5	249.8	253.1	258.4	251.2

*Historical data

In December, withdrawals from savings and loan associations were greater than deposits by about $890 million according to preliminary estimates. Depositors have been switching some funds from passbook accounts into higher-yielding money market certificates. The net savings gain in the fourth quarter was about $1.1 billion which is the lowest amount since the like quarter in 1969. This contributes to the tight mortgage money situation.

1.8 INTEREST RATES AND YIELDS
(Table 08. on page 25)

The changes in Assumptions of this forecast did not affect significantly the forecast data of interest rates and yields, presented in the KEDI forecast in December.

For the second half of this year, interest rates have been raised somewhat, when compared with our prior forecast. The increase in the second half of the year has not changed the basic trend, however. The projection shows, again, a slow, continuous decline in interest rates in the second half of 1980 and in the year 1981.

The forecast data for the stock market indicate, that, in general, the stock market will perform strongly in 1980-1982. No significant ups or downs are expected in that period.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

TABLE 07. MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Currency+Demand Deposits	bil.$	352.8	357.0	373.8	382.6	391.0	376.1
Time Deposits, Adjusted	bil.$	580.2	618.7	635.2	643.3	658.4	638.9
Consumer Instal. Credit	bil.$	275.6	278.3	284.8	290.6	297.8	297.8
Commerc.and Ind. Loans at Banks	bil.$	230.9	243.5	255.2	259.3	264.6	264.6
Negotiable Cert.of Deposits	bil.$	96.6	99.0	103.9	111.9	115.2	115.2
Mortgages at S&L Assns.	bil.$	432.9	441.4	447.5	450.5	453.8	453.8

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Currency+Demand Deposits	bil.$	376.1	402.8	412.6	420.9	427.8	416.0
Time Deposits, Adjusted	bil.$	638.9	668.4	624.3	704.8	726.3	696.0
Consumer Instal. Credit	bil.$	297.8	303.4	309.6	316.8	322.9	322.9
Commerc.and Ind. Loans at Banks	bil.$	264.6	268.7	272.8	278.6	283.1	283.1
Negotiable Cert.of Deposits	bil.$	115.2	120.8	126.9	135.7	137.2	137.2
Mortgages at S&L Assns.	bil.$	453.8	453.1	457.6	469.8	480.7	480.7

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Currency+Demand Deposts	bil.$	416.0	436.6	447.3	461.2	475.7	455.2
Time Deposits, Adjusted	bil.$	696.0	739.4	756.1	774.2	793.5	765.8
Consumer Instal. Credit	bil.$	322.9	331.5	338.7	349.2	358.7	358.7
Commerc.and Ind. Loans at Banks	bil.$	283.1	289.8	305.6	321.8	331.5	331.5
Negotiable Cert.of Deposits	bil.$	137.2	140.5	148.9	156.7	162.3	162.3
Mortgages at S&L Assn.	bil.$	480.7	489.8	500.3	518.7	529.3	529.3

*Historical data

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

TABLE 08. INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
3 mo Treas.Bills Rate(new issues)	%	7.22	9.26	9.61	9.89	11.96	10.19
Prime Rate	%	9.06	11.75	11.76	12.31	15.23	12.76
Mortgage Rate, New Homes	%	9.30	9.97	10.05	10.17	11.88	10.52
Aaa Bonds Rate	%	8.73	9.29	9.54	9.72	10.09	9.66
Long Term Govt. Bonds Yield	%	8.48	9.03	9.19	9.36	10.56	9.52
Standard & Poor's 500 Average	1941-43=100	96.11	99.35	100.18	106.54	103.81	102.47

Indicator	Unit	1979	1980				1980
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	10.14	12.26	11.37	11.06	10.94	11.41
Prime Rate	%	12.76	14.96	14.58	13.24	12.51	13.82
Mortgage Rate, New Homes	%	10.44	11.84	11.56	11.37	11.15	11.48
Aaa Bonds Rate	%	9.66	10.48	10.31	10.14	9.95	10.22
Long Term Govt. Bonds Yield	%	9.52	10.59	10.47	10.19	9.85	10.28
Standard & Poor's 500 Average	1941-43=100	102.47	103.12	204.56	104.87	105.63	104.55

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	11.27	10.67	10.12	9.94	9.68	10.10
Prime Rate	%	13.29	11.86	11.47	10.96	10.56	11.21
Mortgage Rate, New Homes	%	11.38	10.94	10.85	10.57	10.46	10.71
Aaa Bonds Rate	%	10.04	9.74	9.59	9.41	9.36	9.53
Long Term Govt. Bonds Yield	%	10.27	9.76	9.61	9.43	9.26	9.52
Standard & Poor's 500 Average	1941-43=100	101.67	106.82	108.75	109.63	108.97	108.54

*Historical data

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the housing starts in 1979 has been selected for comparison. Almost all forecasters underestimated the actual development. Actual data are taken from the SURVEY OF CURRENT BUSINESS, November 1979 issue, blue pages, from the WEEKLY BUSINESS STATISTICS, January 4, 1980 issue, p. 3, and from the WALL STREET JOURNAL, January 18, 1980 issue, pp. 1, 3. Forecast data are from Business Forecasts 1979, published by the Federal Reserve Bank of Richmond, Va., February, 1979, Library of Congress Catalogue Card No: 75-189493. The table below shows the predictions of forecasters and the deviations of forecast data.

TABLE 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS
HOUSING UNITS STARTS

(Year 1979 million units)

Actual: 1,720

Forecaster	Page in Business Forecasts 1979	Forecast	% of Accuracy
Consensus of Natl. Assoc. of Bus. Economists	18	1.735	+.9
American Statistical Association and National Bureau of Economic Research	19	1.600	-.7
Cyrus T. Lawrence, Inc.	21	1.678	-.2
General Electric Company	23	1.530	-11.1
Philadelphia National Bank	24	1.700	-1.1
University of California	25	1.598	-7.1
The Fidelity Bank	26	1.800	+4.7
Bankers Trust Company	27	1.610	-6.4
Chemical Bank	28	1.730	+.6
KEDI	29	1.771	+2.9
Manufacturers Hanover Trust	30	1.708	-.1
Argus Research Corporation	31	1.770	+2.9
Morgan Guaranty	32	1.617	-6.0